

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Coloma	County Berrien
Audit Date March 31, 2006	Opinion Date May 12, 2006	Date Accountant Report Submitted To State: August 31, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 511 Renaissance Drive Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

# **City of Coloma, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2006**

# City of Coloma, Michigan

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## Independent Auditor's Report

To the City Council  
City of Coloma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Coloma, Michigan as of and for the year ended March 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Coloma, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Coloma, Michigan as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

May 12, 2006

# City of Coloma, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Coloma, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- The City completed the West St. Joseph Street Project during fiscal 2006. The total amount of infrastructure cost capitalized from this project over the past two years was approximately \$600,000. Of this total, \$70,577 was expended during 2006.
- The City received donated land valued at \$34,000, which includes a historical train station.
- The City's Downtown Development Authority sold a parcel of land for approximately \$30,000 to a business that will be expanding into the Coloma area.
- The City received approximately \$12,000 of state revenue sharing that had previously been withheld by the State. Actual 2006 state revenue sharing was approximately \$2,000 less than 2005.
- The City's investment income increased by approximately \$16,000 from 2005 to 2006 due to higher interest rates and larger average account balances.
- There were approximately 125 new water hookups during fiscal 2006 related to the ongoing water project with Coloma Charter Township.
- The City's DDA was notified by the State of Michigan that the amount of recaptured school taxes in previous years exceeded statutory limits. The DDA intends to repay the \$405,000 liability over several years.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Coloma as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

# City of Coloma, Michigan

## Management's Discussion and Analysis (Continued)

### The City of Coloma as a Whole

The following table shows, in a condensed format, the current year net assets in comparison to prior year.

#### Summary Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government		Component Unit - Downtown Development	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Assets</b>								
Current assets	\$ 421,720	\$ 350,949	\$ 165,279	\$ 169,277	\$ 586,999	\$ 520,226	\$ 524,081	\$ 478,952
Noncurrent assets	1,118,955	1,040,291	1,368,055	1,428,610	2,487,010	2,468,901	40,860	33,333
Total assets	1,540,675	1,391,240	1,533,334	1,597,887	3,074,009	2,989,127	564,941	512,285
<b>Liabilities</b>								
Current liabilities	75,115	51,075	24,843	20,131	99,958	71,206	312,930	229,776
Long-term liabilities	62,187	68,632	25,934	40,901	88,121	109,533	555,911	704,605
Total liabilities	137,302	119,707	50,777	61,032	188,079	180,739	868,841	934,381
<b>Net Assets</b>								
Invested in capital assets - Net of related debt	926,925	841,184	1,093,686	1,132,246	2,020,611	1,973,430	40,860	33,333
Restricted for streets	94,153	87,165	-	-	94,153	87,165	-	-
Unrestricted	382,295	343,184	388,871	404,609	771,166	747,793	(344,760)	(455,429)
Total net assets	<u>\$ 1,403,373</u>	<u>\$ 1,271,533</u>	<u>\$ 1,482,557</u>	<u>\$ 1,536,855</u>	<u>\$ 2,885,930</u>	<u>\$ 2,808,388</u>	<u>\$ (303,900)</u>	<u>\$ (422,096)</u>

The City's combined net assets increased 3 percent from a year ago - increasing from \$2,808,388 to \$2,885,930. As we look at the governmental activities separately from the business-type activities, we can see that governmental activity net assets increased 10 percent, from \$1,271,533 to \$1,403,373. Business-type activity net assets decreased 4 percent, from \$1,536,855 to \$1,482,557. The City's component unit, the Downtown Development Authority, experienced a positive change in net assets of \$118,196, reducing the deficit from \$(422,096) to \$(303,900).

The current level of unrestricted net assets for our governmental activities stands at \$382,295, or about 46 percent of expenditures. This is within the targeted range set by the City during its last budget process.

# City of Coloma, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the current year changes in net assets compared to the prior year.

	Governmental Activities		Business-type Activities		Total Primary Government		Downtown Development Authority	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenue</b>								
Program revenue:								
Charges for services	\$ 93,034	\$ 122,987	\$ 362,895	\$ 334,385	\$ 455,929	\$ 457,372	\$ 100	\$ -
Operating grants and contributions	127,645	127,350	-	-	127,645	127,350	-	-
Capital grants and contributions	90,150	425,000	-	-	90,150	425,000	24,900	-
General revenue:								
Property taxes	447,061	421,466	-	-	447,061	421,466	177,875	196,921
State-shared revenue	194,533	172,635	-	-	194,533	172,635	-	-
Unrestricted investment earnings	17,145	5,785	-	4,189	17,145	9,974	6,022	1,997
Miscellaneous	18,330	24,380	-	-	18,330	24,380	-	75
Special item - Loss on sale of capital assets	(17,714)	-	-	-	(17,714)	-	(2,963)	-
<b>Total revenue</b>	<b>970,184</b>	<b>1,299,603</b>	<b>362,895</b>	<b>338,574</b>	<b>1,333,079</b>	<b>1,638,177</b>	<b>205,934</b>	<b>198,993</b>
<b>Program Expenses</b>								
General government	161,924	164,100	-	-	161,924	164,100	-	-
Public safety	214,149	236,274	-	-	214,149	236,274	-	-
Public works	352,862	256,972	-	-	352,862	256,972	-	-
Recreation and culture	45,240	19,097	-	-	45,240	19,097	-	-
Cemetery	63,089	84,751	-	-	63,089	84,751	-	-
Interest on long-term debt	1,080	1,685	-	-	1,080	1,685	-	-
Water and sewer	-	-	417,193	283,728	417,193	283,728	-	-
Downtown Development Authority	-	-	-	-	-	-	87,738	94,916
<b>Total program expenses</b>	<b>838,344</b>	<b>762,879</b>	<b>417,193</b>	<b>283,728</b>	<b>1,255,537</b>	<b>1,046,607</b>	<b>87,738</b>	<b>94,916</b>
<b>Change in Net Assets</b>	<b>\$ 131,840</b>	<b>\$ 536,724</b>	<b>\$ (54,298)</b>	<b>\$ 54,846</b>	<b>\$ 77,542</b>	<b>\$ 591,570</b>	<b>\$ 118,196</b>	<b>\$ 104,077</b>

# **City of Coloma, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues decreased by approximately \$330,000. The decrease was due primarily to a one-time capital grant of \$375,000 received in fiscal 2005.

Expenses increased by about \$75,000 during the year. The most significant increase related to the public works department. The City had approximately \$83,000 more of street repairs during fiscal 2006 than in fiscal 2005.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. During the year ended March 31, 2006, the City's business-type activities experienced a loss. This is despite the fact that the City added approximately 125 new customers from the ongoing water project with Coloma Charter Township, which brought in an additional \$11,000 in Township water sales. The City also increased sewer sales by approximately \$6,000 during the year.

Unfortunately, increases in salary, fringe benefit, and equipment rental costs outweighed the higher revenues. Total water expenses doubled from \$87,164 in 2005 to \$175,680 in 2006. Sewer expenses also increased from \$138,811 in 2005 to \$172,916 in 2006, a 25 percent increase. The City Commission will review utility rates in early fiscal 2007. Rates have not been adjusted since fiscal 2002.

### **Governmental Fund Budgetary Highlights**

The City did not make amendments to the budget during fiscal 2006. Budget overruns included the following:

- The public works department was overbudget by approximately \$38,000. This overrun occurred in part due to \$10,500 of capital purchases that were not budgeted. In addition, the City purchased \$6,900 of trees, which were planted on West St. Joseph Street and unexpectedly paid for \$9,000 of water testing expenses out of this department.
- The Major Streets Fund - The streets construction department had a budget overrun of approximately \$34,000. This related to \$71,000 of construction for West St. Joseph Street, for which only \$50,000 was budgeted within this department.



# **City of Coloma, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

During the fiscal year ended March 31, 2006, the City invested approximately \$71,000 in completing the West St. Joseph Street project. The City purchased several miscellaneous pieces of capital equipment: public works - tigger mower \$10,980 and grass bagger and mower deck \$2,190; parks - benches \$1,900; water/sewer - two riverside pumps, costing \$5,998.

The City received donated land in the parks department valued at \$34,000 and a large outdoor clock donated to the general government valued at \$5,000. A former police building was transferred to the DDA (shown as disposals of \$76,008 of building and \$24,900 of land in Note 4). The building was demolished at a cost of \$4,800 and the existing land was paved to create the DDA parking lot at a cost of \$12,000. Another piece of land owned by the DDA was sold for approximately \$30,000 to a business that will be expanding its operations into the Coloma area.

The City's DDA was notified by the State of Michigan that the amount of recaptured school taxes in previous years exceeded statutory limits. The DDA intends to repay the \$405,000 liability over several years. The City and its component unit reduced the outstanding existing debts by approximately \$26,000 and \$66,000, respectively, during fiscal 2006.

### **Economic Factors and Next Year's Budgets and Rates**

The future of state revenue sharing remains uncertain and it represents a significant portion of the City's revenue. Taxable values will change very little in the near future, so it is important that the City continue to control costs and also continue cooperative efforts with other municipalities for police, fire, and public works.

The Leonard Fund transferred approximately \$56,000 to the Major Street Fund in 2006, in addition to the \$93,000 transferred in 2005, to cover the City's share of the MDOT project to rebuild St. Joseph Street. The City's General Fund anticipates reimbursing the Leonard Fund over the next several years.

The City sells water services to Coloma Charter Township. The State of Michigan is funding the expansion due to Dachtal contamination of wells in the Township. The net impact is expected to be positive for the City. However, the City's Enterprise Fund is currently in a loss position and the Commission will look into possibilities for raising additional revenues and controlling costs over the next year.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

# City of Coloma, Michigan

## Statement of Net Assets March 31, 2006

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 354,148	\$ 72,427	\$ 426,575	\$ 496,532
Receivables - Net:				
Taxes	33,361	-	33,361	-
Customers	-	82,355	82,355	-
Special assessments	-	-	-	1,010
Other	-	-	-	26,539
Inventories	34,211	8,839	43,050	-
Prepaid costs and other assets	-	1,658	1,658	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	62,000	19,888	81,888	24,900
Assets subject to depreciation	872,957	1,115,069	1,988,026	15,960
Investment in joint ventures (Note 1)	183,998	233,098	417,096	-
Total assets	1,540,675	1,533,334	3,074,009	564,941
<b>Liabilities</b>				
Accounts payable	54,553	6,470	61,023	-
Accrued and other liabilities	7,530	3,036	10,566	-
Due to other governmental units	-	-	-	163,931
Noncurrent liabilities -				
Due within one year (Note 6):				
Accrued compensated absences	5,000	-	5,000	-
Long-term debt	8,032	15,337	23,369	148,999
Due in more than one year (Note 6):				
Accrued compensated absences	62,187	-	62,187	-
Long-term debt	-	25,934	25,934	555,911
Total liabilities	137,302	50,777	188,079	868,841
<b>Net Assets (Deficit)</b>				
Investment in capital assets - Net of related debt	926,925	1,093,686	2,020,611	40,860
Restricted for streets	94,153	-	94,153	-
Unrestricted	382,295	388,871	771,166	(344,760)
Total net assets (deficit)	<u>\$ 1,403,373</u>	<u>\$ 1,482,557</u>	<u>\$ 2,885,930</u>	<u>\$ (303,900)</u>

# City of Coloma, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions Capital Grants and Contributions
<b>Functions/Programs</b>			
Primary government:			
General government	\$ 161,924	\$ 29,684	\$ -
Public safety	214,149	7,287	-
Public works	352,862	-	127,645
Recreation and culture	45,240	-	34,000
Cemetery	63,089	56,063	-
Interest on long-term debt	1,080	-	-
Total governmental activities	838,344	93,034	127,645
Business-type activities - Water and sewer	417,193	362,895	-
Total primary government	<u>\$ 1,255,537</u>	<u>\$ 455,929</u>	<u>\$ 127,645</u>
Component unit - Downtown Development Authority	<u>\$ 87,738</u>	<u>\$ 100</u>	<u>\$ 24,900</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Special item - Loss on sale of capital assets			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets (Deficit) - Beginning of year (as restated) (Note 8)</b>			
<b>Net Assets (Deficit) - End of year</b>			

**Statement of Activities**  
**Year Ended March 31, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit -
Governmental	Business-type		Downtown
Activities	Activities	Total	Development
			Authority
\$ (132,240)	\$ -	\$ (132,240)	\$ -
(206,862)	-	(206,862)	-
(169,067)	-	(169,067)	-
(11,240)	-	(11,240)	-
(7,026)	-	(7,026)	-
(1,080)	-	(1,080)	-
(527,515)	-	(527,515)	-
-	(54,298)	(54,298)	-
(527,515)	(54,298)	(581,813)	-
-	-	-	(62,738)
447,061	-	447,061	177,875
194,533	-	194,533	-
17,145	-	17,145	6,022
18,330	-	18,330	-
(17,714)	-	(17,714)	(2,963)
659,355	-	659,355	180,934
131,840	(54,298)	77,542	118,196
1,271,533	1,536,855	2,808,388	(422,096)
<b>\$ 1,403,373</b>	<b>\$ 1,482,557</b>	<b>\$ 2,885,930</b>	<b>\$ (303,900)</b>

# City of Coloma, Michigan

## Governmental Funds Balance Sheet March 31, 2006

	Major Funds				Total Governmental Funds
	General	Major Streets	Local Streets	Leonard Fund	
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 91,979	\$ 74,031	\$ 43,964	\$ 144,174	\$ 354,148
Taxes receivable	33,361	-	-	-	33,361
Total assets	<u>\$ 125,340</u>	<u>\$ 74,031</u>	<u>\$ 43,964</u>	<u>\$ 144,174</u>	<u>\$ 387,509</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 4,172	\$ 23,842	\$ -	\$ -	\$ 28,014
Accrued and other liabilities	7,530	-	-	-	7,530
Due to component unit (Note 5)	26,539	-	-	-	26,539
Total liabilities	38,241	23,842	-	-	62,083
<b>Fund Balances</b>					
Designated for projects funded by private contribution	-	-	-	144,174	144,174
Unreserved and undesignated	87,099	50,189	43,964	-	181,252
Total fund balances	87,099	50,189	43,964	144,174	325,426
Total liabilities and fund balances	<u>\$ 125,340</u>	<u>\$ 74,031</u>	<u>\$ 43,964</u>	<u>\$ 144,174</u>	

Amounts reported for governmental activities and the component unit in the statement of net assets are different because:

Capital assets used in governmental activities and the component unit are not financial resources and are not reported in the funds	934,957
Investment in joint ventures are recorded in the statement of net assets, but not recorded in the funds	183,998
Assets expected to be used over several years are recorded as inventory in the statement of net assets, but are expensed in the funds	34,211
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(75,219)
Net assets of governmental activities	<u>\$ 1,403,373</u>

# City of Coloma, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2006

	Major Funds				Total Governmental Funds
	General	Major Streets	Local Streets	Leonard Fund	
<b>Revenue</b>					
Property taxes	\$ 447,061	\$ -	\$ -	\$ -	\$ 447,061
State sources	194,533	95,732	31,913	-	322,178
Licenses and permits	17,583	-	-	-	17,583
Fines and forfeitures	6,245	-	-	-	6,245
Interest and rentals	83,558	-	-	3,131	86,689
Other	82,215	71,939	-	-	154,154
Total revenue	831,195	167,671	31,913	3,131	1,033,910
<b>Expenditures</b>					
General government	161,520	-	-	-	161,520
Public safety	225,296	-	-	-	225,296
Public works	240,074	-	-	-	240,074
Recreational and cultural	37,215	-	-	12,000	49,215
Highways and streets	-	185,938	41,658	-	227,596
Other	70,290	-	-	-	70,290
Total expenditures	734,395	185,938	41,658	12,000	973,991
<b>Excess of Revenue Over (Under) Expenditures</b>	96,800	(18,267)	(9,745)	(8,869)	59,919
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 5)	-	20,000	15,000	-	35,000
Transfers out (Note 5)	(35,000)	-	-	-	(35,000)
Total other financing sources (uses)	(35,000)	20,000	15,000	-	-
<b>Net Change in Fund Balances</b>	61,800	1,733	5,255	(8,869)	59,919
<b>Fund Balances - Beginning of year</b>	25,299	48,456	38,709	153,043	265,507
<b>Fund Balances - End of year</b>	<u>\$ 87,099</u>	<u>\$ 50,189</u>	<u>\$ 43,964</u>	<u>\$ 144,174</u>	<u>\$ 325,426</u>

# City of Coloma, Michigan

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2006

<b>Net Change in Fund Balances</b>	<b>\$ 59,919</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds and the component unit report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	133,307
Current year capital asset disposals - Net of accumulated depreciation	(24,900)
Current year allocation of depreciation	(34,336)

Repayment of debt principal is an expenditure in the governmental funds and component unit, but not in the statement of activities (where it reduces long-term debt)	11,670
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(3,874)
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Increase in investment in joint venture	4,593
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Governmental funds report inventories as expenditures when purchased; in the statement of activities, these costs are recorded as inventory and expensed as the asset is used	(14,539)
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<b>Change in Net Assets</b>	<b><u>\$ 131,840</u></b>
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# City of Coloma, Michigan

## Proprietary Fund Statement of Net Assets March 31, 2006

	Enterprise - Water and Sewer
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 72,427
Customer receivables	82,355
Inventories	8,839
Prepaid costs and other assets	<u>1,658</u>
Total current assets	165,279
Noncurrent assets:	
Capital assets (Note 4)	1,134,957
Investment in joint venture (Note 1)	<u>233,098</u>
Total assets	1,533,334
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	6,470
Accrued and other liabilities	3,036
Current portion of long-term debt (Note 6)	<u>15,337</u>
Total current liabilities	24,843
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	<u>25,934</u>
Total liabilities	<u>50,777</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	1,093,686
Unrestricted	<u>388,871</u>
Total net assets	<u><u>\$ 1,482,557</u></u>



# City of Coloma, Michigan

## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

	Enterprise - Water and Sewer
<b>Operating Revenue</b>	
Sale of water	\$ 131,741
Sewage disposal charges	225,444
Other charges for services	<u>5,710</u>
Total operating revenue	362,895
<b>Operating Expenses</b>	
Cost of water	175,680
Cost of sewage treatment	172,916
Depreciation:	
Water	23,656
Sewer	<u>35,484</u>
Total operating expenses	<u>407,736</u>
<b>Operating Loss</b>	(44,841)
<b>Nonoperating Expenses</b>	
Decrease in investment in joint venture	7,414
Interest expense	<u>2,043</u>
Total nonoperating expenses	<u>9,457</u>
<b>Change in Net Assets</b>	(54,298)
<b>Net Assets - Beginning of year</b>	<u>1,536,855</u>
<b>Net Assets - End of year</b>	<u><u>\$ 1,482,557</u></u>

# City of Coloma, Michigan

## Proprietary Fund Statement of Cash Flows Year Ended March 31, 2006

	Enterprise - Water and Sewer
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 364,729
Payments to suppliers	(213,864)
Payments to employees	(130,406)
Net cash provided by operating activities	20,459
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(5,999)
Principal and interest paid on capital debt	(16,624)
Net cash used in capital and related financing activities	(22,623)
<b>Net Decrease in Cash and Cash Equivalents</b>	(2,164)
<b>Cash and Cash Equivalents - Beginning of year</b>	74,591
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 72,427</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (44,841)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	59,140
Changes in assets and liabilities:	
Receivables	1,834
Accounts payable	2,206
Accrued and other liabilities	2,120
Net cash provided by operating activities	<u><u>\$ 20,459</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended March 31, 2006, there were no noncash investing, capital, and financing activities.

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Coloma, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Coloma, Michigan:

#### **Reporting Entity**

The City of Coloma, Michigan is governed by an elected six-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Discretely Presented Component Unit** - The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to encourage growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

On July 26, 1999, the City created a Brownfield Redevelopment Authority to revitalize selected environmentally distressed areas within the City limits. This Authority had no assets as of March 31, 2006 and no activity for the period then ended.

**Jointly Governed Organizations** - The City, along with Coloma Charter Township and Hagar Township, is a member of the Coloma - Hagar Joint Fire Board (the "Fire Board"). The Fire Board is governed by an administrative board of six members, appointed by the City and the townships. The City's equity interest in the Fire Board of \$175,215 is recorded in governmental activities in the government-wide financial statements. Complete financial statements for the Fire Board can be obtained from the City of Coloma mayor's office.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The City is a participant with Coloma Charter Township in a joint venture to provide for the administration and operations of the cemetery. Upon dissolution of the cemetery board, the net assets will be shared on a pro rata basis as follows: 40 percent to City of Coloma and 60 percent to Coloma Charter Township. The cemetery board is governed by an administrative board of five members consisting of two members from the City of Coloma and three from Coloma Charter Township. The City's share of fixed assets and the equity interest of \$8,783 are recorded in governmental activities on the government-wide financial statements. Complete financial statements for the cemetery board can be obtained from the City of Coloma mayor's office.

The City is also a participant with Coloma Charter Township, Watervliet Township, and the City of Watervliet in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of these communities. The Paw Paw Lake Regional Joint Sewage Disposal Board was created for this purpose. Upon dissolution of the board, the net assets of the Paw Paw Lake Regional Joint Sewage Disposal Board will be shared equally among the four municipalities. The City's equity interest is recorded in business-type activities on the government-wide financial statements and on the proprietary fund statement of net assets on the fund statements. Complete financial statements for the board can be obtained from the City of Coloma mayor's office.

The City does not anticipate any additional financial benefits or burdens related to its investments in these entities.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

**Leonard Fund** - The Leonard Fund accounts for funds provided by a private donor and designated by the City Commission for future projects.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution and sanitary sewer systems.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$32.3 million (a portion of which is captured by the DDA), on which taxes levied consisted of 16.6899 mills for operating purposes. This resulted in approximately \$517,000 for operating purposes, of which approximately \$447,000 is recognized in the General Fund and approximately \$70,000 is recognized by the component unit. The additional property tax revenue amounts recognized in the component unit relate to amounts collected from other governmental units.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased on the government-wide financial statements. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15 to 25 years
Buildings and building improvements	25 to 50 years
Equipment	5 to 15 years
Vehicles	3 to 12 years
Utility system	10 to 40 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2006

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at April 1, 2005	\$ (16,089)
Current year construction permit revenue	7,287
Related expenses - Direct costs	<u>(11,038)</u>
Accumulated shortfall at March 31, 2006	<u><u>\$ (19,840)</u></u>

**Net Assets Deficit** - The City's component unit shows a net asset deficit at the government-wide level at March 31, 2006. However, on the modified accrual basis, the component unit would not have a deficit fund balance. The deficit net asset position is due to the requirement under *GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* to record the component unit's long-term debt at the government-wide level. This long-term debt has no corresponding asset to offset the negative impact to net assets. Therefore, the component unit is not required to file a deficit recovery plan with the State of Michigan.

### Note 3 - Deposits

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

### **Note 3 - Deposits (Continued)**

The City has designated two banks for the deposit of its funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investments in accordance with the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and equivalents are subject to custodial credit risk, which is examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$930,161 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2006

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance April 1, 2005	Additions	Disposals	Transfers and Adjustments	Balance March 31, 2006
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 52,900	\$ 34,000	\$ 24,900	\$ -	\$ 62,000
Construction in progress	532,331	70,577	-	(602,908)	-
Subtotal	585,231	104,577	24,900	(602,908)	62,000
Capital assets being depreciated:					
Land improvements	46,983	5,000	-	-	51,983
Infrastructure	-	-	-	602,908	602,908
Buildings	235,087	-	76,008	-	159,079
Equipment	148,868	15,070	12,000	-	151,938
Vehicles	225,344	-	-	-	225,344
Cemetery equipment	69,158	8,660	-	-	77,818
Subtotal	725,440	28,730	88,008	602,908	1,269,070
Accumulated depreciation:					
Land improvements	16,635	2,181	-	-	18,816
Buildings	154,199	3,843	76,008	-	82,034
Equipment	135,848	5,152	12,000	-	129,000
Vehicles	125,382	15,505	-	-	140,887
Cemetery equipment	17,721	7,655	-	-	25,376
Subtotal	449,785	34,336	88,008	-	396,113
Net capital assets being depreciated	275,655	(5,606)	-	602,908	872,957
Net capital assets	<u>\$ 860,886</u>	<u>\$ 98,971</u>	<u>\$ 24,900</u>	<u>\$ -</u>	<u>\$ 934,957</u>

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2006

### Note 4 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance April 1, 2005	Additions	Balance March 31, 2006
Capital assets not being depreciated - Sites and easements	\$ 19,888	\$ -	\$ 19,888
Capital assets being depreciated:			
Utility system	1,212,547	-	1,212,547
Buildings and improvements	990,477	-	990,477
Equipment	170,523	5,999	176,522
Vehicles	8,000	-	8,000
Subtotal	2,381,547	5,999	2,387,546
Accumulated depreciation:			
Utility system	568,719	24,200	592,919
Buildings and improvements	576,767	22,498	599,265
Equipment	59,851	12,442	72,293
Vehicles	8,000	-	8,000
Subtotal	1,213,337	59,140	1,272,477
Net capital assets being depreciated	1,168,210	(53,141)	1,115,069
Net capital assets	<u>\$ 1,188,098</u>	<u>\$ (53,141)</u>	<u>\$ 1,134,957</u>

Capital asset activity for the City of Coloma's component unit for the year was as follows:

	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
<b>Component Unit</b>				
Capital assets not being depreciated - Land	\$ 33,333	\$ 24,900	\$ (33,333)	\$ 24,900
Capital assets being depreciated:				
Land improvements	-	16,800	-	16,800
Vehicles	19,583	-	-	19,583
Subtotal	19,583	16,800	-	36,383
Accumulated depreciation	19,583	840	-	20,423
Net capital assets being depreciated	-	15,960	-	15,960
Net capital assets	<u>\$ 33,333</u>	<u>\$ 40,860</u>	<u>\$ (33,333)</u>	<u>\$ 40,860</u>

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2006

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental activities:

General government	\$ 5,404
Public works	19,235
Recreation and culture	2,042
Cemetery	<u>7,655</u>

Total governmental activities	<u>\$ 34,336</u>
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Business-type activities - Water and Sewer	<u>\$ 59,140</u>
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### Note 5 - Interfund Activity

The City's primary government's General Fund has a payable recorded to the City's component unit, the Downtown Development Authority, in the amount of \$26,539. This balance resulted from a time lag between when the accounting system recorded the transaction and when the payment of funds actually occurred.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Major Streets Fund	\$ 20,000
General Fund	Local Streets Fund	<u>15,000</u>
Total		<u>\$ 35,000</u>

The transfers from the General Fund to the Major and Local Streets Funds were to fund expenditures for various street projects.

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2006

### Note 6 - Long-term Debt

The City of Coloma (and its component unit) issue bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Installment purchase agreement						
Amount of issue - \$47,000						
Maturing through 2007	4.39%	\$ 19,702	\$ -	\$ 11,670	\$ 8,032	\$ 8,032
Accrued compensated absences	-	\$ 63,313	\$ 3,874	\$ -	\$ 67,187	\$ 5,000
<b>Business-type Activities</b>						
Installment purchase agreement						
Amount of issue - \$77,155						
Maturing through 2009	3.39%	\$ 55,852	\$ -	\$ 14,581	\$ 41,271	\$ 15,337
<b>Component Unit</b>						
1994 Series Downtown Development Bonds						
Amount of issue - \$500,000						
Maturing through 2010	5.90%	\$ 190,428	\$ -	\$ 40,540	\$ 149,888	\$ 42,995
1995 Series Downtown Development Bonds						
Amount of issue - \$400,000						
Maturing through 2011	7.00%	175,000	-	25,000	150,000	25,000
Tax repayment to State of Michigan						
Amount of issue - \$467,003						
Maturing through 2011	0.00%	405,022	-	-	405,022	81,004
Total component unit		\$ 770,450	\$ -	\$ 65,540	\$ 704,910	\$ 148,999

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2006

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and installment purchase obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 8,032	\$ 1,328	\$ 9,360	\$ 15,337	\$ 1,287	\$ 16,624	\$ 148,999	\$ 16,923	\$ 165,922
2008	-	-	-	15,871	753	16,624	156,617	12,205	168,822
2009	-	-	-	10,063	169	10,232	159,419	7,303	166,722
2010	-	-	-	-	-	-	123,564	1,176	124,740
2011	-	-	-	-	-	-	116,311	-	116,311
Total	<u>\$ 8,032</u>	<u>\$ 1,328</u>	<u>\$ 9,360</u>	<u>\$ 41,271</u>	<u>\$ 2,209</u>	<u>\$ 43,480</u>	<u>\$ 704,910</u>	<u>\$ 37,607</u>	<u>\$ 742,517</u>

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical, disability, and life insurance benefits provided to employees. The City has purchased commercial insurance for employee health, workers' compensation, life and disability, property, and liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 8 - Prior Period Adjustment

The City's component unit was notified by the State of Michigan that the amount of recaptured school taxes in previous years exceeded statutory limits. A liability has been recorded for the amount due, which will be repaid over the next five years.

	Component Unit - Downtown Development Authority
Deficit - April 1, 2005, as previously reported	\$ (17,074)
Liability related to excess recapture of taxes in previous years	<u>(405,022)</u>
Deficit - April 1, 2005, as adjusted	<u>\$ (422,096)</u>



## **Required Supplemental Information**

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# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenue</b>			
Property taxes	\$ 425,000	\$ 447,061	\$ 22,061
State sources	190,000	194,533	4,533
Licenses and permits	9,000	17,583	8,583
Fines and forfeitures	6,000	6,245	245
Interest and rent	85,000	83,558	(1,442)
Other	79,000	82,215	3,215
Total revenue	794,000	831,195	37,195
<b>Expenditures</b>			
General government:			
Legislative	59,000	72,081	(13,081)
Elections	3,615	1,583	2,032
Assessor	11,000	10,265	735
Clerk	53,739	49,670	4,069
Treasurer	11,950	14,407	(2,457)
Board of review	1,150	809	341
Buildings and grounds	10,000	12,705	(2,705)
Total general government	150,454	161,520	(11,066)
Public safety:			
Police	158,074	157,999	75
Fire	36,060	48,759	(12,699)
Ambulance	7,500	7,500	-
Inspections	11,170	11,038	132
Total public safety	212,804	225,296	(12,492)
Public works - Department of public works	201,950	240,074	(38,124)
Recreation and culture:			
Parks	9,460	22,835	(13,375)
Public relations	11,470	14,380	(2,910)
Total recreation and culture	20,930	37,215	(16,285)
Other - Cemetery	89,613	70,290	19,323
Total expenditures	675,751	734,395	(58,644)
<b>Excess of Revenues Over Expenditures</b>	118,249	96,800	(21,449)
<b>Other Financing Uses</b> - Transfers to other funds	(110,000)	(35,000)	75,000
<b>Net Change in Fund Balance</b>	8,249	61,800	53,551
<b>Fund Balance</b> - Beginning of year	25,299	25,299	-
<b>Fund Balance</b> - End of year	<u>\$ 33,548</u>	<u>\$ 87,099</u>	<u>\$ 53,551</u>

# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended March 31, 2006

	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenue</b>			
State sources	\$ 90,000	\$ 95,732	\$ 5,732
Other	-	15,789	15,789
Total revenue	90,000	111,521	21,521
<b>Expenditures</b>			
Street construction	115,000	149,066	(34,066)
Routine maintenance	23,481	12,120	11,361
Sweeping	11,238	7,013	4,225
Trees and shrubs	11,280	3,984	7,296
Ditches and drains	2,831	2,473	358
Traffic services	6,541	4,029	2,512
Winter maintenance	13,030	5,743	7,287
Administrative services	-	1,510	(1,510)
Total expenditures	183,401	185,938	(2,537)
<b>Excess of Expenditures Over Revenue</b>	(93,401)	(74,417)	18,984
<b>Other Financing Sources</b>			
Transfers from other funds	80,000	20,000	(60,000)
Transfer from component unit	-	56,150	56,150
Total other financing sources	80,000	76,150	(3,850)
<b>Net Change in Fund Balance</b>	(13,401)	1,733	15,134
<b>Fund Balance - Beginning of year</b>	48,456	48,456	-
<b>Fund Balance - End of year</b>	<u>\$ 35,055</u>	<u>\$ 50,189</u>	<u>\$ 15,134</u>

# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended March 31, 2006

	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenue - State sources</b>	\$ 32,000	\$ 31,913	\$ (87)
<b>Expenditures</b>			
Street construction	19,000	29,574	(10,574)
Routine maintenance	8,747	5,814	2,933
Sweeping	1,090	192	898
Trees and shrubs	11,408	1,862	9,546
Ditches and drains	1,554	530	1,024
Traffic services	1,275	65	1,210
Winter maintenance	4,416	2,111	2,305
Administrative services	-	1,510	(1,510)
Total expenditures	47,490	41,658	5,832
<b>Excess of Expenditures Over Revenue</b>	(15,490)	(9,745)	5,745
<b>Other Financing Sources - Transfers from other funds</b>	30,000	15,000	(15,000)
<b>Net Change in Fund Balance</b>	14,510	5,255	(9,255)
<b>Fund Balance - Beginning of year</b>	38,709	38,709	-
<b>Fund Balance - End of year</b>	<u>\$ 53,219</u>	<u>\$ 43,964</u>	<u>\$ (9,255)</u>

# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Leonard Fund Year Ended March 31, 2006

	Original and Final Budget	Actual	Variance with Final Budget
<b>Revenue - Interest</b>	\$ 300	\$ 3,131	\$ 2,831
<b>Expenditures - Recreation and culture</b>	-	12,000	(12,000)
<b>Net Change in Fund Balance</b>	300	(8,869)	(9,169)
<b>Fund Balance - Beginning of year</b>	153,043	153,043	-
<b>Fund Balance - End of year</b>	<u>\$ 153,343</u>	<u>\$ 144,174</u>	<u>\$ (9,169)</u>

# City of Coloma, Michigan

## Note to Required Supplemental Information March 31, 2006

### Note - Budgetary Information

**Budgetary Information** - The budgets are prepared by the mayor and adopted by the City Commission prior to the start of the fiscal year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. The budget was not amended during the fiscal year ended March 31, 2006. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Coloma, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
<b>General Fund</b>		
Legislative	\$ 59,000	\$ 72,081
Public safety - Fire	36,060	48,759
Recreation and culture - Parks	9,460	22,835
Public works - Department of public works	201,950	240,074
<b>Major Streets Fund -</b>		
Highways and streets - Street construction	115,000	149,066
<b>Local Streets Fund -</b>		
Highways and streets - Street construction	19,000	29,574
<b>Leonard Fund -</b>		
Recreation and culture	-	12,000



To the City Commission  
City of Coloma, Michigan  
119 N. Paw Paw Street  
Coloma, Michigan 49038

In planning and performing our audit of the financial statements of the City of Coloma for the year ended March 31, 2006, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

### **Bank Reconciliation Process**

As noted in 2005, the monthly treasurer's cash reports do not clearly reconcile the bank to the general ledger balance. The outstanding checklist should provide more detail, including check number, payee, and check date. We recommend these changes to strengthened the process and allow the finance committee to review complete bank reconciliations. In addition, the same process should be followed for the trust and agency account.

### **Financial Overview**

During the year ended March 31, 2006, the City's General Fund, Major Streets Fund, and Local Streets Fund balances increased as the Funds' revenues and other financing sources exceeded expenditures by approximately \$62,000, \$1,700, and \$5,300, respectively. The Leonard Fund experienced a decline in fund balance of approximately \$8,900 during the fiscal year. The Water/Sewer Fund experienced an operating loss of approximately \$54,000 during fiscal 2006.

### **Water/Sewer Rate Study**

The City of Coloma's business-type activities consist of the Water and Sewer Fund. During the year ended March 31, 2006, the City's business-type activities experienced a loss. This is despite the fact that the City added approximately 125 new customers from the ongoing water project with Coloma Charter Township, which brought in an additional \$11,000 in Township water sales. The City also increased sewer sales by approximately \$6,000 during the year.

To the City Commission  
City of Coloma, Michigan

Unfortunately, increases in salary, fringe benefit, and equipment rental costs outweighed the higher revenues. Total water expenses doubled from \$87,164 in 2005 to \$175,680 in 2006. Sewer expenses also increased from \$138,811 in 2005 to \$172,916 in 2006, a 25 percent increase.

### **Water/Sewer Rate Study (Continued)**

Water and Sewer rates have not been increased since 2002. We recommend that the Commission continue to reassess these rates on an annual basis to ensure the current rate structure is adequate to cover the costs of general operations of the Water and Sewer Fund. The City Commission may wish to conduct a rate study to determine new water and sewer rates for the future. We would be happy to discuss this matter further with the Commission at your convenience.

### **Allocation of Interest Income**

All interest income earned on the pooled checking account was credited to the General Fund during 2006. For pooled accounts, interest income is required to be allocated among all funds in the pool based on a consistent formula. One possible way to allocate interest income is by a monthly weighted average cash balance in each fund. Plante & Moran, PLLC would be happy to assist the City with formatting a spreadsheet to calculate the allocation of interest income on a monthly basis at the Commission's request.

### **Transportation Matters**

The State experienced lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ended September 30, 2005. Plante & Moran, PLLC publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Streets Funds. There is also a concern about the State's forecast for fiscal year 2005/2006. We encourage the City to be conservative in budgeting Major and Local Streets Funds' revenue.

In 2004, the legislature modified Act 51 to allow local governments to transfer monies from their Major Streets Fund to their Local Streets Fund if a surplus existed. As a condition of the transfer, the amended law requires that certain conditions be met including the adoption of an asset management process for the major and local street systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Streets Fund to the Local Streets Fund can only be done to the extent that local revenues exist in the Major Street Fund. There is also currently legislation proposed that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

As part of the governor's fiscal year 2006/2007 budget proposal, a road funding program has been introduced which would provide approximately \$400 million to be used by local governments as federal match monies on local road projects. The program requires legislation before it becomes effective.



To the City Commission  
City of Coloma, Michigan

## **Local Government Finance Model**

In 2005, the governor created a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force held its first meeting in September 2005. A report from this group is expected in 2006. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

## **State-shared Revenue**

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund and as long as this condition exists revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 26 percent of the City's total General Fund revenue. The table below details state-shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2001</u>
2001	\$124,959	\$103,503	\$228,462	\$ -
2002	113,412	104,556	217,968	10,494
2003	102,317	106,327	208,644	19,818
2004	82,347	105,172	187,519	40,943
2005	77,792	107,683	185,475	42,987
2006	73,923	110,369	184,292	44,170

To the City Commission  
City of Coloma, Michigan

**State-shared Revenue (Continued)**

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$74,000 at risk in its General Fund budget based on 2006 funding levels. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

We would like to compliment the City staff on their preparation for this year's audit. We also appreciate the courtesy and cooperation extended to us by you and members of your City during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

*Plante & Moran, PLLC*

May 12, 2006